

Message Text

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PAGE 01 BUENOS 09350 282159Z

72

ACTION ARA-20

INFO OCT-01 ISO-00 AGR-20 CEA-02 CIAE-00 COME-00 DODE-00

EB-11 FRB-02 H-03 INR-10 INT-08 L-03 LAB-06 NSAE-00

NSC-10 PA-04 RSC-01 AID-20 CIEP-02 SS-20 STR-08

TAR-02 TRSE-00 USIA-15 PRS-01 SPC-03 OMB-01 DRC-01

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R 282100Z DEC 73

FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 4811

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E. O. 11652: N/A

TAGS: EGEN, AR

SUBJ: PRICE AND WAGE POLICY: GOVT TO ABSORB HIGHER IMPORT COSTS

1. SUMMARY: AFTER A NUMBER OF FALSE STARTS, GOA HAS NOW ANNOUNCED THAT IT WILL ABSORB HIGHER COSTS OF IMPORTED RAW MATERIALS RATHER THAN ALLOW THESE INCREASES TO BE PASSED ON IN FORM OF HIGHER PRICES OF END PRODUCTS, THIS TO BE DONE THROUGH YET UNDEFINED ADJUSTMENTS IN EXCHANGE RATES, IMPORT RESTRICTIONS, AND TAXES FOR CERTAIN IMPORTS. BY THUS AVERTING OFFICIALLY SANCTIONED PRICE INCREASES, GOA WILL BE IN BETTER POSITION TO HOLD LINE AGAINST DEMANDS FOR WAGE INCREASES. AT SAME TIME, MAJOR INDUSTRIAL SECTORS NOW CAUGHT IN SERIOUS SQUEEZE BETWEEN RISING RAW MATERIAL PRICES AND FIXED PRICES FOR END PRODUCTS IN INTERNAL MARKET SHOULD RECEIVE SOME RELIEF. END SUMMARY.

2. RISING WORLD PRICES OF NECESSARY IMPORTS, PRIMARILY RAW MATERIALS, WERE IDENTIFIED EARLY BY ADMINISTRATORS OF GOA PRICE POLICY AS LIKELY BASIS FOR EVENTUAL INCREASES IN PRICES OF END PRODUCTS. MECHANISMS ESTABLISHED IN SEPT TO REVIEW LIMITED OFFICIAL USE

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PAGE 02 BUENOS 09350 282159Z

INDIVIDUAL REQUESTS FOR SUCH INCREASES. SOME INCREASES REPORTED

TO BE IMMINENT IN NOV, BUT THEN POSTPONED WHEN ORGANIZED LABOR
INSISTED THAT ANY SUCH CHANGES IN PRICES BE ACCCOMPANIED BY
HIGHER WAGES. IN SUBSEQUENT DISCUSSIONS, UNIONS STOOD FIRM
ON POSITION WHILE COMMERCE SECRETARY, WHO ADMINISTERS PRICE
POLICIES, CLAIMED THAT SUCH INCREASES WOULD NOT AFFECT COST OF
LIVING INDEX. IN MID DECEMBER, COMMERCE SECRETARY ANNOUNCED
THAT THOROUGH INVESTIGATION HAD ESTABLISHED THAT SOME PRICE
INCREASES WERE JUSTIFIED AND AUTHORIZATIONS FOR INCREASES WERE
REPORTEDLY SENT TO A NUMBER OF COMPANIES. ON DEC 20, HOWEVER,
PRESIDENT PERON WHO HAD EARLIER TOLD UNIONS THERE WOULD BE NO
WAGE INCREASES (BA 9089) STATED IN PRESS CONFERENCE THAT COMPANIES
THEMSELVES WOULD HAVE TO ABSORB COST OF FOREIGN INFLATION AS
WORKERS WERE ABSORBING IMPACT OF FROZEN WAGES. COMMERCE SECY
APPARENTLY TAKEN BY SURPRISE BACKTRACKED SENDING TELEGRAMS TO
AFFECTED FIRMS REVOKING AUTHORIZATIONS FOR PRICE INCREASES.

3. GOA NOW HAS ANNOUNCED DECISIONS TO TAKE UPON ITSELF TASK OF
ABSORBING HIGHER COSTS OF NECESSARY IMPORTS THOUGH ADJUSTMENTS
IN EXCHANGE RATES, CUSTOMS DUTIES, AND POSSIBLY TAXES. NO DETAILS
AVAILABLE YET AS TO HOW SUCH ADJUSTMENTS WILL BE ADMINISTERED
OR WHAT PRODUCTS TO BE COVERED. CENTRAL BANK PRESIDENT INDICATED
THAT IMPORTS OF ABOUT 300 PRODUCTS WILL BENEFIT FROM MORE FAVORABLE
EXCHANGE RATE, WHICH WILL REPRESENT "PARTIAL REVALUATION OF
PESO." LIMITED NUMBER OF PRODUCTS COULD ALSO BENEFIT FROM
REDUCTION IN IMPORT DUTIES.

4. COMMENT: PROFIT MARGINS OF MOST IF NOT ALL MAJOR SECTORS OF
ARGENTINE INDUSTRY DEPENDENT ON IMPORTED INPUTS ARE CAUGHT
IN SERIOUS SQUEEZE BETWEEN RISING WORLD PRICES OF THESE MATERIALS,
PRIMARILY METALS, CHEMICALS, PETROCHEMICALS, WOOD PULP AND PAPER,
AND DOMESTIC PRICES FIXED FOR INTERMEDIATE AND END PRODUCTS UNDER
GOA PRICE FREEZE SIX MONTHS AGO. MANY COMPANIES NOW CLAIM TO
BE OPERATING AT A LOSS, WITH AUTOMOBILE INDUSTRY PARTICULARLY
HARD HIT. WHILE MOST COMPANIES INITIALLY CONTINUED NORMAL
OPERATIONS IN HOPE OF EVENTUAL RELIEF, THEIR ABILITY TO MAIN-
TAIN LEVEL AND QUALITY OF PRODUCTION INCREASINGLY THREATENED
BY CONTINUED RISING COSTS, DIFFICULTIES IN OBTAINING NECESSARY
RAW MATERIALS, AND DIFFICULTY IN OBTAINING RELIEF FROM GOVERN-
MENT.

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PAGE 03 BUENOS 09350 282159Z

5. ANNOUNCEMENT OF NEW MEASURES SO SOON AFTER PERON'S STATE-
MENT OF DEC 20 SEEMS TO INDICATE THAT GOA IS BECOMING CON-
CERNED ABOUT EFFECT OF PRICE SQUEEZE ON FUTURE PRODUCTION AND
EMPLOYMENT. PROBLEM REMAINS, HOWEVER, OF TRANSLATING THIS
CONCERN INTO TIMELY AND EFFECTIVE ACTION. EXCHANGE RATE ADJUSTMENTS
AND OTHER ANNOUNCED MEASURES OFFER GREATER DEGREE OF FLEXIBILITY
BUT LIKELY TO BE MORE DIFFICULT TO ADMINISTER THAN PRICE
INCREASES ORIGINALLY CONSIDERED. ALSO BY PROVIDING THAT INCREASED

COSTS BE ABSORBED BY BUDGET AND THUS NOT DIRECTLY REFLECTED
IN RETAIL PRICES AND COST OF LIVING GOVERNMENT WILL BE BETTER
ABL TO MAINTAIN THAT INFLATION HAS BEEN HALTED AND THERE-
FORE NO WAGE INCREASES ARE JUSTIFIED. LINK BETWEEN THESE TWO
ASPECTS OF GOA ECONOMIC POLICY REITERATED YESTERDAY BY PERON
WITH PERSONAL PROMISE TO UNIONS THAT ANY INCREASE IN PRICES
WHICH ARE NOW FROZEN WILL BE ACCCOMPANIED BY IMMEDIATE INCREASE
IN WAGES.

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